Before the
FEDERAL COMMUNICATIONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Access Charge Reform	)	CC Docket No. 96-262
	)	
Price Cap Performance for Local Exchange Carriers	)	CC Docket No. 94-1
	)	
Interexchange Carrier Purchases of Switched Access Services Offered by Competitive Local Exchange Carriers	)	CCB/CPD File No. 98-63
	)	
Petition of U S West Communications, Inc. For Forbearance from Regulation as a Dominant Carrier in the Phoenix, Arizona MSA	)	CC Docket No. 98-157
	)	

Comments of the
Public Service Commission of Wisconsin

The Public Service Commission of Wisconsin (PSCW) respectfully submits these comments on certain access services pricing issues raised in the above-captioned proceedings by the Federal Communications Commission (FCC) Notice released on August 27, 1999. The purpose of these comments is to identify some general concerns about the geographic de-averaging of access rates, the use of market forces to control terminating access rates, and the issue of capacity-based access pricing. Given these concerns, the PSCW also recommends continuing oversight of access rates.

Geographic De-averaging of Access Rates

In paragraph 190 of the Notice in the proceeding, the FCC asks "whether to amend our Part 69 rules to permit price cap incumbent LECs to de-average interstate common line and traffic-sensitive access charges . . . ." The de-averaging of access prices is a significant step. The FCC should carefully consider the extent to which de-averaged access rates will result in significant differences in the costs of originating and terminating toll calls in more rural areas. If the cost is significantly greater, long distance providers terminating calls in those regions, but offering service across all regions at uniform prices, will be unable to compete with providers operating solely in low-priced urban areas. These providers will be able to continue to compete and to service these areas only if they are able to de-average toll rates to reflect these cost differences. The only other viable alternative for providers that wish to remain competitive, in the face of significantly higher rural access costs, would be to avoid rural areas as much as possible.

Neither option is attractive. Both will result in increased costs and reduced choices for rural customers. Some form of universal service support will therefore be required to offer universality of service in these areas. That support could take the form of explicit subsidies to reduced rural access rates or assistance to rural customers to allow them to afford the higher costs of rural service created by de-averaged access rates. In either case, the FCC needs to develop that universal service assistance mechanism to coincide with implementation of de-averaged access rates.

Using Market Pressure to Lower Terminating Switched Access Rates

Implicit in much of the FCC Notice is a desire to be more reliant on market forces to set access prices. The PSCW suggests there are arguments that market forces will not serve to drive prices for interconnection or access service downward or towards costs. Instead, in a competitive market, economic pressures will drive rates for terminating access upwards. As the FCC has long recognized, it is inefficient to recover overhead, joint, and common costs through usage-sensitive rates, since that recovery will increase price and therefore decrease demand. Such recovery is most appropriately achieved by adding these costs to the least elastic (least price-sensitive) services offered.[1] In a competitive telecommunications market, terminating access or terminating interconnection service will be the least elastic services offered. The incentive, for both incumbent local exchange carriers (ILECs) and competitive local exchange carriers (CLECs), will be to increase terminating access rates.

As the FCC has often noted, future telecommunications providers will strive to offer "one-stop shopping," namely the ability to place telephone calls. Artificial and regulatory boundaries like local exchange areas, LATAs, state lines and international borders will cease to have practical meaning for many telecommunications consumers. Instead they will buy telephone service, the ability to place calls (to their neighbor or to the other side of the nation or the planet) plus all the additional features that contribute to that ability, from one provider. For purposes of this comment, consider this "retail" service.

Providers will also terminate calls that originate elsewhere and are intended for their subscribers. This is currently called local interconnection, reciprocal compensation, or terminating access, depending on whether the call is local or toll. In the future, this distinction is likely to erode, and the service will become just terminating competitors' calls. For the following discussion, this is "terminating service," which covers both

[1] In economic theory, this is Ramsey pricing.

terminating access and terminating calls under reciprocal compensation arrangements.

A provider will obtain revenue from these two basic services: retail service and terminating service. So long as the sum of price times volume for retail service, plus price times volume for terminating service exceeds total costs, the company will make a profit. If the company reduces retail rates, it will gain customers. If it *raises* terminating service rates, it will not see a decrease in access volume (since demand for terminating calls is not price elastic), but it will increase access revenues. Thus, market pressures will drive competitors to increase rates for terminating services (access), in order to reduce retail prices.

In the past, long distance providers have been able to bypass local service providers that charged high access rates by offering discounts on local service as an incentive to agree to the bypass arrangement. In the future, this will not be an option, since the customer will have no incentive to agree to the bypass arrangement. The customer will be receiving all of his or her telecommunications services from their provider, and will see no advantage in agreeing to that bypass arrangement. Without customer agreement, bypass cannot occur.

If access rates are raised as a means of reducing retail rates, competitors will have only three options to continue to compete. First, competitors could increase their own terminating service (access) rates and thereby reduce their retail rates to stay competitive. Second, the competitors could refuse to carry calls intended for customers of providers with high access rates (customers are unlikely to be happy with this arrangement; it also damages almost any concept of universal service in consumers' minds). Third, the competitors could charge a base rate plus the cost of terminating access. This option also has problems; current billing systems are unable to provide cost information in real time, and customers are unlikely to appreciate a system in which they are uncertain of the cost of a call until a bill arrives.

Full reliance on market forces to reduce access pricing on terminating services is not likely to be successful in a pragmatic market context.

Capacity-based Access Pricing

In Section VIII.C.1.c of the FCC Notice, the FCC seeks comment on the concept of a capacity-based system for access in lieu of per-minute charges. The PSCW does not suggest this concept be dismissed out of hand; however, we offer an observation that the theoretical attraction of capacity pricing is heavily burdened with practical problems. The PSCW examined this concept several years ago. Working with the industry, the PSCW attempted to devise a workable capacity-based access charge regime. In the end, although the theory remained attractive, implementation proved impossible. Like transport, the capacity of switching systems is highly dependent on the electronics installed. Determining existing capacity at any given time may not be administratively feasible, given that electronics in the network can be changed easily and that, as a result, records on existing capacity are not always available or reliable.

Oversight of Access Rates, Including Those of CLECs

Notice Section VIII.E addresses CLEC access charges. Given the implications of access rate de-averaging and the pressures on terminating access prices, as discussed above, the PSCW respectfully suggests that some oversight of access pricing, including that for CLECs, must be maintained. The PSCW does not advocate cost studies or extensive regulation of these CLEC rates; however, the ability to monitor access pricing is important in the changing marketplace for local and toll services.

Conclusion

The PSCW applauds this major undertaking to continue the reform of access service pricing. We encourage the FCC to consider the concerns raised in these comments. The PSCW further recommends that the FCC maintain some opportunity to intervene when companies, either ILECs or CLECs, attempt to set access rates at excessive levels.

Dated at Madison, Wisconsin, October 28, 1999.

By the Commission:

/s/ Lynda L. Dorr

Lynda L. Dorr
Secretary to the Commission

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